

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 SAM-01

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C O N F I D E N T I A L 2654

BRUSSELS PASS USEC

E.O. 11652: GDS

TAGS: ECON, PL

SUBJECT: SOVIET PRICE RISES WILL NOT STOP ORIENTATION
OF POLISH TRADE AWAY FROM CEMA

1. SUMMARY; THE SHARP RISE IN THE SOVIETS' PETROLEUM PRICE
WILL NOT INCREASE POLISH ECONOMIC DEPENDENCE ON THE USSR
AS MUCH AS INITIALLY SEEMED LIKELY. THE RAPID REORIENTATION
OF POLISH TRADE AWAY FROM ITS CEMA PARTNERS AND TOWARD THE
WEST IS NOT LIKELY TO BE DISRUPTED FOR LONG BY THE CEMA
PRICE RISES. END SUMMARY.

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2. THE LARGE INCREASE IN THE PRICE OF SOVIET CRUDE OIL

AND OTHER PRODUCTS TOGETHER WITH THE ADDITIONAL INCREASES WHICH THE NEW CEMA PRICE FORMULA WILL BRING IN FUTURE YEARS CERTAINLY WILL MAKE POLAND ECONOMICALLY MORE DEPENDENT ON THE USSR AND WILL SLOW SOMEWHAT THE RAPID RATE OF ECONOMIC GROWTH OF THE LAST FOUR YEARS. HOWEVER, AUGMENTED DEPENDENCE ON THE SOVIETS AND THE SLOWING OF ECONOMIC GROWTH WILL BE MUCH LESS THAN SOME COMMENTATORS HAVE BEEN ASSUMING.

3. POLAND'S LARGE COAL RESOURCES PROVIDE 80 PERCENT OF THE COUNTRY'S ENERGY REQUIREMENTS. WHILE THIS PERCENTAGE HAD BEEN DECREASING IN RECENT YEARS AS PETROLEUM PRODUCTS CAME TO PLAY AN INCREASINGLY IMPORTANT ROLE, REACTION TO THE HIGHER PRICES IS LIKELY TO BRING COAL'S SHARE OF ENERGY PRODUCTION BACK TO A HIGHER LEVEL.

4. IN 1974, FUEL AND ENERGY IMPORTS COMPRISED ONLY 5.5 PERCENT OF POLAND'S TOTAL IMPORTS AND THE COUNTRY'S OVERALL TRADE IN THESE PRODUCTS SHOWED \$1.3 BILLION IN EXPORTS AND LESS THAN \$600 MILLION IN IMPORTS. BEFORE THE PRICE RISES, POLAND'S EXPORTS OF FUEL AND ENERGY TO CEMA COUNTRIES WERE RUNNING ABOUT 35 PERCENT HIGHER THAN ITS IMPORTS FROM THOSE COUNTRIES. GIEREK'S REPORTED CLAIM (WARSAW 2601) THAT POLAND HAD INCREASED ITS COAL PRICES TO ITS CEMA ALLIES SO MUCH THAT IT WAS IN A BETTER POSITION IN TRADE WITH ITS CEMA PARTNERS THAN BEFORE THE INCREASE IN SOVIET OIL PRICES, SEEMS OVERLY OPTIMISTIC. NEVERTHELESS, POLAND WAS CERTAINLY LESS DISADVANTAGED BY THESE PRICE RISES THAN OTHER CEMA MEMBERS.

5. THE SOVIETS HAVE BEEN UNWILLING OR UNABLE TO SATISFY ALL OF POLAND'S PETROLEUM-IMPORT REQUIREMENTS SINCE 1973, AND THE POLES HAVE BEEN RELYING INCREASINGLY ON NON-CEMA SOURCES FOR LIQUID-FUEL SUPPLIES. ACCORDING TO A WELL-PLACED SOURCE IN THE MINISTRY OF FOREIGN TRADE, POLAND WILL BUY 2.5-MILLION METRIC TONS OF CRUDE OIL, ABOUT 23 PERCENT OF ITS 1975 REQUIREMENTS, FROM SOURCES OUTSIDE CEMA. POLISH DEPENDENCE ON THE SOVIETS WILL BE FURTHER DECREASED WITH THE OPENING THIS YEAR OF THE NEW

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GDANSK REFINERY, WHICH IS DESIGNED TO PROCESS APPROXIMATELY 3-MILLION TONS PER YEAR OF LOW SULPHUR CRUDE. INITIAL SUPPLIES ARE TO BE PROVIDED UNDER A CONTRACT WITH BP.

6 UNDER GIEREK'S POLICY OF INCREASED TRADE WITH THE WEST, POLAND'S IMPORTS FROM THE INDUSTRIALIZED WEST HAVE INCREASED BY AN AVERAGE OF 60 PERCENT IN EACH OF THE

LAST THREE YEARS. POLISH IMPORTS FROM CEMA COUNTRIES AS A PERCENTAGE OF TOTAL IMPORTS HAVE DECREASED FROM 69 PERCENT IN 1970 TO 44 PERCENT IN 1974. THE NEW CEMA PRICE FORMULA WILL GREATLY INCREASE THE VALUE OF POLAND'S CEMA TRADE AND THUS STOP THE DECLINE IN ITS RELATIVE IMPORTANCE, BUT IT IS NOT LIKELY TO REVERSE THE TREND. DURING THE FIRST QUARTER OF 1975, WHEN THE HIGHER CEMA PRICES WERE IN EFFECT, POLISH TRADE WITH THE WEST INCREASED BY 30 PERCENT WHILE THAT WITH CEMA COUNTRIES ROSE BY 25.5. PERCENT.

7. AS TRADE WITH THE WEST HAS MUSHROOMED, NEW RELATIONSHIPS HAVE BEEN CREATED BETWEEN WESTERN SUPPLIERS AND POLISH ENTERPRISES. COOPERATION AGREEMENTS, IN WHICH THE POLES GENERALLY PAY FOR EQUIPMENT AND TECHNOLOGY IMPORTS BY RETURNING A PROTION OF THE OUTPUT TO THE FOREIGN PARTNER, ARE INCREASINGLY COMMON. THE SELLER FREQUENTLY PROVIDES CONTINUING TECHNICAL ADVICE AT THE PRODUCTION FACILITY, AND KEY MEMBERS OF THE POLISH STAFF ARE OFTEN SENT TO THE U.S. FOR TRAINING. THROUGH THESE RELATIONSHIPS, WHICH ARE FORMALIZED IN 10-15 YEAR COOPERATION AGREEMENTS, THE POLES HOPE TO KEEP THEIR TECHNOLOGY UP TO DATE, AND TO IMPROVE THEIR ACCESS TO HARD-CURRENCY MARKETS.

8. THE POLES KNOW THAT MODERNIZATION IS A CONTINUOUS PROCESS, AND THEY APPEAR TO BE CONVINCED THAT IT CAN ONLY BE SUSTAINED THROUGH LONG-TERM ECONOMIC TIES WITH DEVELOPED-MARKET ECONOMIES. THE NEW CEMA PRICE SYSTEM AND THE COST OF PARTICIPATING IN SOVIET RAW MATERIALS PROJECTS MAY SLOW SOMEWHAT THE PACE AT WHICH ECONOMIC LINKS WITH THE WEST WILL DEVELOP, BUT THEY ARE NOT LIKELY FUNDAMENTALLY TO ALTER THE

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